

Approved 4.29.84
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Senator Paul "Bud" Burke at
Chairperson

11:00 a.m./~~p.m.~~ on February 22, 1984 in room 526-S of the Capitol.

All members were present except: Senator Johnston (excused)

Committee staff present: Wayne Morris, Research Dept.
Tom Severn, Research Dept.
Don Hayward, Revisor's Office

Conferees appearing before the committee:

Senator Doyen

Glen Walker, Director of Economic Development, Concordia
Terry Marczewski, Controller for Boogaart Supply, Inc., Concordia
Phil Martin, Property Valuation Department
Ron Gaches, Kansas Chamber of Commerce and Industry
Gary Smith, Shawnee County Appraiser

The committee held a hearing on SB 733 which would permit the taxpayer to choose the quarter of the year to be used in determining the fair market value of merchants' inventories.

The chairman recognized Senator Doyen, sponsor of this legislation, who told the committee the inventory tax on some businesses is rather harsh, and he sponsored this bill to help companies stay in Kansas.

Senator Doyen introduced Glen Walker, Director of Economic Development for Concordia. Mr. Walker stated they felt fortunate to have a major food wholesaler, Boogaarts, located in their community. He said they are their largest employer with a three million dollar annual local payroll. However, this company is seeking to expand its market in Nebraska. Should they continue to headquarter in Kansas, they will have a \$150,000 inventory tax bill that would not be incurred in Nebraska. He is urging enactment of this bill in order to provide this company and other companies affected by this tax with this taxing option that will allow them to remain competitive in the market place.

The chairman recognized Terry Marczewski, Controller for Boogaart Supply, who said they are in a highly competitive business, operating on low profit margins and high inventory turns. He said their main competition is located in Nebraska where there is no tax assessed on inventory. Since 30% of their sales is derived from retail stores located in Nebraska, they are at a distinct competitive disadvantage. The enactment of SB 733 would result in an inventory tax reduction of about \$7,000 annually. While this may seem insignificant to the overall inventory tax paid by his company, he said it is a step toward reversing the competitive disadvantage incurred by Boogaart's and the entire Kansas business community.

Phil Martin, Property Valuation Department, reported that there will be a loss of revenue resulting from enactment of this bill but he couldn't say how much, and would be mostly in the urban areas. He said there is a question about the constitutionality of this action, but his department had no position on the bill.

The committee considered SB 731 which would permit the taxpayer to choose the day of the month to be used in determining the fair market value of manufacturers' inventories. This bill was requested by the Revenue Department.

Ron Gaches, KCCI, speaking for both SB 731 and SB 733, said flexibility in choosing the time when inventories would be valued for property tax

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,
room 526-S, Statehouse, at 11:00 ~~a.m.~~^{p.m.} on February 22, 1984

purposes should be provided: 1) Kansas' high inventory taxes would be slightly moderated, sending a positive message to those businesses that might be considering Kansas as a site for expansion or construction of new facilities and 2) the current lack of flexibility in the valuation date impairs the orderly flow of goods as taxpayers manipulate their stock of raw materials and finished products to achieve the lowest property tax. (Attachment #1)

Phil Martin said he would favor this bill in order to clarify the statutes.

The chairman recognized Senator Thiessen for a report on the subcommittee on SB 467. Senator Thiessen reported they had met and presented amendments to SB 467 as agreed to by the subcommittee. (Attachment #2)

Phil Martin reported he is not clear what this amendment does but thinks it might be an unconstitutional provision, particularly the part concerning the devising and prescribing guides for individual industries. He said there would be volumes of guides for them to prepare in devising the guides, and this could lead to an administrative nightmare. The preparation of guides would be complicated and rather than use CPI, would be a lot of indexes. He said not only would this be difficult to administer for the department, but even more difficult for the appraisers to do administratively.

Ron Gaches rose in defense of the subcommittee amendments, particularly as to what might be constitutional problems. He said the Constitution doesn't define "fair market value" and the legislature could do that in any way they please. As to the concern that this bill would cause the trending factors to be more difficult to administer by the appraisers, let them do the business of valuing personal property properly even if it takes more effort on their part. It's essential to obtain equitable tax laws.

Gary Smith, Shawnee County appraiser, said they will do whatever the legislative body gives them to take care of, but there is a problem of having adequate staff to do the job. He said there could be a problem if you allow the businesses to turn in their own inventory, but he doesn't think we want to penalize our businesses in Kansas competing with Nebraska where there is no inventory tax. He said the industry "averages" will cause problems, the more tables the more problems, and you give the taxpayers an argumentative point.

The chairman adjourned the meeting at 11:55 a.m. The committee meets February 23, 11:00 a.m.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
Feb 22	Travis J Berkley	Morrill, Kansas	Gordon
Feb 22	Matt Aberle	Sabetha, Kansas	Gordon
Feb 22	Scott Aberle	Morrill, Kansas	Gordon
Feb 22	Rann Eslick	Ulysses Ks.	Grant Co.
Feb 22	Stephen Ulysses	Ulysses Ks	Grant Co.
" "	Brad Welch	LAKIN	Kearny Co.
" "	Edward Cramer	Lakin	U.S.D. # 215
" "	Sheri Corbett	Lakin	CloseUp Kansas
" "	Leon Anderson	"	"
" "	Robert George	"	"
" "	Jana Kleemann	Lakin	"
" "	Marie Jacobsson	Lakin	"
"	DUD GRANT	TOPEKA	KCCI
"	Ron Gaches	TOPEKA	KCCI
"	TERRY MARCZEWSKI	CONCORDIA	BOOGARTS
"	Glen Walker	"	City Of Concordia
"	GARY SMITH	TOPEKA	Shawnee Co.
	Phil Martin	"	PVD
	Janice Marcur	"	PVD
	W. Walker	"	Keegan

Proposed amendment to Senate Bill No. 467

On page 1, in line 37, by striking all after the period; by striking all in line 38 and inserting "If trended cost factors or any other appraisal methodology which has, as an integral element thereof, a nationwide or similar economic indicator, index or factor, is utilized in developing such guides, the director shall use only that indicator, index or factor which is reasonably applicable to the industry or property affected, and the director shall determine appropriate economic lives for such property only after a carefully documented study based upon objective evidence is made. In no case shall the fair market value of machinery and equipment established by such guides exceed its original cost unless it can be clearly established by the director that such machinery and equipment may be sold for more than its original cost.";

On page 2, after line 48, by inserting two new sections to read as follows:

"Sec. 2. K.S.A. 1983 Supp. 79-503a is hereby amended to read as follows: 79-503a. "Fair market value" means the amount in terms of money that a well informed buyer is justified in paying and a well informed seller is justified in accepting for property in an open and competitive market, assuming that the parties are acting without undue compulsion. For the purposes of this definition it will be assumed that consummation of a sale occurs as of January 1.

A variance of 10% in any individual appraisal at fair market value shall not be considered willful neglect of the county appraiser's duty to achieve fair market value. The foregoing provision shall not be construed to mean that a series of such variances does not constitute willful neglect.

Sales in and of themselves shall not be the sole criteria of fair market value but shall be used in connection with cost, income and other factors including but not by way of exclusion:

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- (a) The proper classification of lands and improvements;
- (b) the size thereof;
- (c) the effect of location on value;
- (d) depreciation, including physical deterioration or functional, economic or social obsolescence;
- (e) cost of reproduction of improvements;
- (f) productivity;
- (g) earning capacity as indicated by lease price or by capitalization of net income;
- (h) rental or reasonable rental values;
- (i) sale value on open market with due allowance to abnormal inflationary factors influencing such values; and
- (j) comparison with values of other property of known or recognized value.

The assessment-sales ratio study shall not be used as an appraisal for appraisal purposes nor shall the going concern value of a business, whether arrived at by comparable sales, capitalization of earnings or any other methodology, be used in determining the fair market value of tangible personal property of a business.

The appraisal process utilized in the valuation of all real and tangible personal property for ad valorem tax purposes shall conform to generally accepted appraisal procedures which are adaptable to mass appraisal and consistent with the definition of fair market value unless otherwise specified by law."

"New Sec. 3. The provisions of this act shall apply to all taxable years commencing after December 31, 198⁴/₇.";

By renumbering existing sections 2 and 3 as sections 4 and 5, respectively;

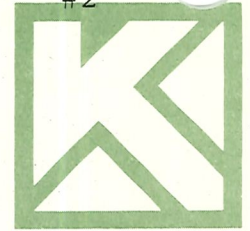
Also, on page 2, in line 49, by striking "is" and inserting "and K.S.A. 1983 Supp. 79-503a are";

In the title, in line 17, by striking all after "the"; in line 18, by striking all before the semicolon and inserting "valuation of certain personal property"; in line 19, after "and" by inserting "K.S.A. 1983 Supp. 79-503a and"; also, in line 19, by striking "section" and inserting "sections"

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

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A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

February 22, 1984

KANSAS CHAMBER OF COMMERCE AND INDUSTRY
Testimony Before the
SENATE ASSESSMENT AND TAXATION COMMITTEE
by
Ronald N. Gaches, General Counsel and
Director of Taxation, KCCI

Thank you Mr. Chairman for this opportunity to share with your Committee the position of the Kansas Chamber of Commerce and Industry regarding Senate Bills 731 and 733, regarding the valuation of manufacturer's and merchant's inventories.

KCCI supports the enactment of Senate Bills 731 and 733. If enacted, these proposals would provide business taxpayers greater flexibility in choosing the time when their inventories would be valued for property tax purposes.

This flexibility should be provided for two major reasons: (1) Kansas' high inventory taxes would be slightly moderated, sending a positive message to those businesses that might be considering Kansas as a site for expansion or construction of new facilities (meaning more jobs for Kansans) and; (2) the current lack

*Attch. 2
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of flexibility in the valuation date impairs the orderly flow of goods as taxpayers manipulate their stock of raw materials and finished products to achieve the lowest property tax.

These bills represent small steps that can be taken to ease the efficient administration of inventory taxes without significant reduction of the tax base or property taxes paid. The Kansas Chamber of Commerce and Industry urges your favorable consideration of Senate Bills 731 and 733.